

Chairman's statement

We enter the new year in good shape, continuing to see organic and acquisitive growth opportunities



Geoff Unwin
Chairman

Halma: what we do and our strategy

Our business is to produce products which protect lives and improve the quality of life for people worldwide. We do this through continuous innovation in market-leading products, which meet the increasing demands for improvements to health, safety and the environment. We build strong positions in markets where the demand is global. Our businesses are autonomous and highly entrepreneurial.

Strategically we aim to grow profit and revenue in excess of 5% p.a. organically, to have Return on sales in the region of 18% or above and generate post-tax Return on total invested capital of more than 12%. As a result we are highly cash generative and re-invest back into our businesses through people, product and market development, continue to acquire more companies with like characteristics, and strive to give annual dividend growth of 5% or more to our shareholders. The latter we have achieved for 29 consecutive years.

Results

Once again, we have seen good progress over the last financial year. Revenue from continuing operations increased 13% to £395.1m (2007: £351.1m) with underlying organic growth* of 8.0% despite adverse currency effects of 1.4%, i.e. 9.4% at constant currency. Profit before tax and amortisation of acquired intangibles on continuing operations was £72.8m (2007: £65.6m) an increase of 11%, organic growth* was 6.7%; 7.6% at constant currency. Statutory profit before tax increased 9% to £68.0m. The Board is recommending a final dividend of 4.55p per share, an increase of 5.1%. Our dividend cover has increased to 1.83 times (2007: 1.74 times). Return on total invested capital* was 14.1% (2007: 14.0%).

Acquisitions and disposals

During the year we acquired Sonar Research & Development (SRD) for £2.6m which now operates as part of Tritech in the Industrial Safety sector and Riestler (manufacturer of small medical and ophthalmic diagnostic devices) for €55m (£40m) in our Health and Analysis sector. In Infrastructure Sensors we concluded a joint venture agreement with a leading Chinese fire detector supplier which will result in an investment of approximately £2.5m in 2008/09.

We disposed of Post Glover Lifelink for US\$6m (£3m).

Market development

We expanded our banking facilities in February 2008 with a new five-year £165m syndicated revolving credit facility, replacing our existing £60m facility on similar attractive terms. This increases our firepower to acquire more first-class companies that fit our strategic direction. We have allocated increased management resource to seek out and evaluate potential opportunities and the pipeline is improving.

Progress in China has been solid thanks to the investment we have made in our China hubs which are there to help our subsidiaries set up direct operations. Sales increased by 19% to £9m and the number of Group companies with in-country operations since we established the hubs has increased from 3 to 16.

We are now setting up a similar hub in India, which will assist Group companies in developing operations there.

These investments are in line with our strategy of devoting more resources to the faster growing economies.

Governance

At the beginning of the year we announced the appointment of Jane Aikman to the Board. Jane is the Financial Director of Infinis Limited (the UK's largest purely renewable energy generator) and she brings extensive financial and East Asia experience to the Board.

RETURN ON TOTAL INVESTED CAPITAL*

14.1%

DIVIDEND INCREASE

5%

At the end of the year we announced that Keith Roy had given notice that he would retire and resign as a Director with effect from 31 July 2008. Keith's contribution as an executive Director has been immense. Among the many qualities that Keith demonstrates, his mentoring and people development skills are outstanding. Many managers and directors within the Group owe their strong development to encouragement and advice from Keith. On behalf of the Board I would like to thank him and wish him well in the next stage of his life.

In April we appointed Adam Meyers as an executive Director to the Board. He is responsible for the Health Optics and Photonics division within Halma's Health and Analysis sector. His knowledge of many of our Health and Analysis markets, particularly in the USA, brings an added dimension to the Board.

People

We owe these results to the quality of people within Halma, to their continued innovation and their dedication to our customers. A sincere thank you to them all.

We continue to invest in the development of our people, in particular through our management training programmes. It is encouraging to see an increasing number of internal promotions within the Group, particularly cross-company promotions.

Summary

Another year of strong progress. We enter the new year in good shape, continuing to see organic and acquisitive growth opportunities and this gives us confidence for the future.

Geoff Unwin
Chairman

* See Financial highlights

2008 CORPORATE RESPONSIBILITY ACHIEVEMENTS

What we said

1. Measurement and reporting of our carbon footprint
2. Establishment of non-financial KPI in respect of the workplace
3. Continuing development of our people
4. Emphasis on business ethics
5. Maintenance of the composition and balance of the Board

What we've achieved

- Halma's carbon policy was approved by the Board at the beginning of the year and calls for a 10% reduction in the carbon footprint by 2010.
- Halma conducts an annual survey of its employees to assess how well the Group's values are aligned with its employees and how well the Group communicates its values to employees.
- The Halma Executive Development Programme has been supplemented with a Management Development Programme aimed at middle-managers and the necessary skills they need in their current and future roles.
- At the beginning of the year, the Group formally adopted Group-wide policies on human rights and business practices to reinforce the strong ethical culture already prevalent throughout the Group.
- The Board filled the non-executive Director vacancy during the year thereby restoring its optimum composition. The Board also identified an internal successor for a retiring executive Director.

Chief Executive's review

Record revenue and profit



Andrew Williams
Chief Executive

Record revenue and profit

We have achieved another year of record revenue and profit, demonstrating the strength of our business model and strategy which has created value consistently for shareholders, customers and employees over nearly four decades.

We continue to maintain a healthy balance between short-term performance and investment for sustainable growth in the longer term. The diversity of our products, markets and customer base provides good opportunities for organic and acquisitive growth and our underlying order intake trend remains strong.

Good organic growth and strong returns

We grew revenues from continuing operations by 13% to £395m (2007: £351m) and profit before amortisation of acquired intangibles by 11% to £72.8m. Organic revenue growth* of 8.0% and organic profit growth* of 6.7% exceeded the 5% p.a. minimum objective for a third consecutive year. Return on sales* of 18.4%, Return on capital employed* of 55.8% and Return on total invested capital* of 14.1% were all strong performances and meet my overall objective to deliver growth without diluting the high quality of returns.

Growth in all three sectors

All three reporting sectors (Infrastructure Sensors, Health and Analysis and Industrial Safety) achieved organic revenue and profit growth. In Infrastructure Sensors, our Fire Detection business performed very strongly whilst Elevator Safety and Security Sensors ended the year with improved momentum as planned following the major strategic changes implemented in the first half of the year. Our Health and Analysis sector made good progress with Labsphere, acquired in February 2007, contributing to another positive year for Photonics. Industrial Safety continued its record of strong organic growth and also benefited from a good performance from Tritech, the subsea asset monitoring business acquired in November 2006.

Revenue to all major geographic regions increased with double digit growth in the UK (+13%), Mainland Europe (+18%) and Asia Pacific/Australasia (+21%) – the latter meeting our objective of increasing our rate of revenue growth in Asia. Revenues into the USA grew by 7% despite an

OUR VALUES

Achievement

We aim to achieve record performance each year. This is accomplished through the individual and collective achievements of our people. We recognise, reward and celebrate high levels of achievement as this drives continuous improvement and sustained wealth creation.

Empowerment

We succeed by empowering our people to lead, make decisions and act with autonomy within a clearly communicated strategic framework. We give clear goals and make people accountable through regular and unambiguous performance feedback.

Innovation

We need to be innovative to be competitive, grow our business and create wealth. We encourage creativity whether it be in product design, manufacturing, selling or administration. We actively seek to recognise and reward innovative behaviour at all levels of our organisation.

Customer satisfaction

We are only successful if we help our customers to succeed too. We achieve this by giving customers what they want, every time, and finding new ways to add value. We aim to be leaders in our chosen sectors through innovative products and excellent service to customers.

2008 ORGANIC* REVENUE GROWTH

8%

2008 ORGANIC* PROFIT GROWTH

7%

adverse currency impact. The geographic diversity of our customer base and, increasingly, our cost base ensured that the overall impact of currency movement on the Group's revenue and profit was modest.

Acquisition activity continues with increased resources

Three acquisitions and one disposal were completed during the last year. In December 2007, we bought Riester (a German manufacturer of handheld instruments for the eyecare and general healthcare markets) for £40m, making it the second largest acquisition in our history. Earlier in the year we acquired SRD (£2.6m) to add new technology to our existing subsea Asset Monitoring business and BKKI for £0.3m to establish a stronger platform for our Gas Detection products in China. In January 2008, we sold Post Glover Lifelink Inc for £3m.

Our pipeline of acquisition opportunities remains good due to our increased 'search' activities and a stable marketplace for high quality small to mid-size technology businesses. We ended the year with net debt of £44m having extended our core borrowing facilities in February 2008 to £165m and leaving us well placed to take any suitable opportunities when they arise.

More investment in product and process innovation

We launched over 90 new products during the year and increased expenditure on R&D by 22% to £18.6m. This R&D expenditure supports a wide range of activities from leading edge technology to modifying existing products to meet precise customer needs.

Increasingly we are seeing opportunities to gain competitive advantage through our manufacturing capabilities. Investment is increasing in manufacturing automation across the Group. Examples include the latest Optical Thin Film coating technology in Photonics and the latest electron beam welding equipment to help our Bursting Disc business sell into new OEM markets. Strategically, this increased automation also simplifies manufacturing processes and opens up the opportunity to replicate operations closer to our customers in other regions.

A resilient value-creation strategy

Halma has changed a lot in recent years but our core values of Achievement through Empowerment, Innovation and Customer Satisfaction have remained the same.

Our value-creation strategy is a 'twin-track' approach.

As a business 'investor', we actively manage a portfolio of businesses, allocating capital and people resources according to where we see the best return. Since April 2005, we have made 11 acquisitions and 9 disposals.

As a business 'developer', we provide resources and highly relevant expertise to help our high return companies grow on a sustained basis. These resources and expertise include not only our Divisional Chief Executives, who chair the Group companies, but increasingly the knowledge shared between our companies. In addition to ensuring strong financial control and good governance, the role of our small Head Office is increasingly one of enabling companies to grow faster. Since April 2005, we have created Halma hubs in China, established senior management training programmes, held technology transfer events, increased the opportunities for cross-selling between Group companies and increased capital investment in new manufacturing capability.

The consistently high returns achieved by Halma are a direct consequence of selecting a diverse range of businesses which have common characteristics. These include robust market growth

2008 STRATEGIC ACHIEVEMENTS

What we said

1. Organic growth to exceed 5% p.a.
2. Targeted acquisitions
3. Build on Chinese hubs and grow revenue in Asia
4. Continued management development
5. Maintain strong new product introduction

What we've achieved

- 7% organic profit growth and 8% organic revenue growth driving record results.
- Riester acquired in December 2007 for €55 million strengthening our Health and Analysis sector. SRD and BKKI bolt-on deals completed to strengthen our Industrial Safety sector.
- Revenue in Asia increased by 21%. 16 group companies now have a direct presence in China. Our first acquisition (BKKI) and a Joint Venture agreement (Fire Detection) in China. Manufacturing hub facility due to be operational in Shanghai mid-2008.
- Further Halma Executive Development Programmes (HEDP) completed for senior managers. New Halma Management Development Programme (HMDP) introduced for middle management.
- Over 90 new products launched during 2007/08. R&D expenditure increased by 22% to £18.6m. More new products developed through collaboration between Group companies.

Chief Executive's review (continued)

drivers, strong barriers to entry, products which target 'non-discretionary' customer spend and untapped international growth opportunities. Our consistent good performance through macro-economic cycles shows the resilience of this integrated financial, operating and market drivers strategy.

Corporate responsibility and sustainability

Halma's commitment to the environment, safety and health and improving the quality of life for individuals is reflected in both the way we do business and the products we create for our customers.

Our 'operational' commitment is shown in greater detail in the Sustainability review starting on page 32, including the clear objectives we set ourselves in areas ranging from carbon policy to the safety of our employees. We set objectives because they make good business sense. These are regularly reviewed and, where necessary, acted upon by the Board.

The positive impact that our products have on society and the environment is significant and is a source of satisfaction for employees. Examples include protecting people from hazardous gases at work, providing safe access to public buildings for those with physical disabilities, enabling eye specialists to prevent sight loss or protecting the environment by conserving water through leakage reduction.

Stronger talent and succession planning processes

We achieve and sustain our high levels of performance because we have talented and hard working teams of people throughout the Group. The quality and depth of talent has improved significantly over recent years and I thank everyone who has contributed to another excellent year.

We have transformed the way in which we identify, develop and reward people. During the year, a new Halma Management Development Programme was created to support our Executive Development Programme and drive our investment in people development deeper into our organisation. A key benefit of this overall investment has been improved succession planning and increased internal promotions.

During the past year, three new Divisional Chief Executives were appointed. All were internal promotions, with each one earned through a strong track record of achievement at Managing Director level.

In April 2008, one of our existing DCEs Adam Meyers was promoted to the Halma p.l.c. Board following Keith Roy's announcement of his intention to retire in July 2008.

I congratulate Adam on his well deserved promotion and also wish Keith a long and happy retirement. Keith's generosity in sharing his experience and developing others is reflected in the strength of our Executive team and many of our subsidiary company boards. He leaves with the Group in good shape.

Outlook

Our businesses are well-positioned to sustain growth in the short and medium term due to their diversity of product range, customer base and geographic footprint as well as the 'non-discretionary' spend aspect of our safety-related products. In Infrastructure Sensors, these factors, a focus on commercial rather than residential buildings and a strong bias towards refit/refurbishment rather than new construction, gives us confidence of continued progress in 2008/09.

All of our Health and Analysis markets look positive for the coming year and beyond. In addition to good organic growth prospects we are still targeting much of our acquisition search efforts in this sector.

Order intake trends have continued to be positive as we move into the next financial year. A major contributor to this is in Industrial Safety where many of our customers in the oil and gas market have an ever lengthening pipeline of orders to fulfil.

Halma continues to deliver strong growth across our businesses and territories. This reflects our well-balanced portfolio and our focus on unique and high performance products that promote health and safety where customer investment is often non-discretionary. Our end markets remain robust and our financial position is strong. This gives us significant headroom to continue investing in innovation and organic growth and making acquisitions as the right opportunities present themselves. Therefore I am confident that we are well-positioned to make further progress in the current year and beyond.

Andrew Williams

Chief Executive

* See Financial highlights